

Message Text

CONFIDENTIAL

PAGE 01 QUITO 06297 01 OF 02 272009Z

63

ACTION EB-07

INFO OCT-01 ARA-06 IO-10 ISO-00 AGR-05 CEA-01 CIAE-00

DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04 TAR-01

TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01 /097 W

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R 271754Z AUG 75

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 6907

USDOC WASHDC

USMISSION GENEVA

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L SECTION 1 OF 2 QUITO 6297

GENEVA FOR GATT

E.O. 11652: GDS

TAGS: ETRD, EC

SUBJ: ECUADOR: IMPORT DUTY SURCHARES

REF: QUITO 6260

BEGIN UNCLASSIFIED

1. FOLLOWING IS TRANSLATION OF FULL TEXT OF PAID NOTICE WHICH APPEARED IN QUITO DAILY EL COMERCIO ON AUG 26 FOLLOWING PUBLICATION OF DECREE NO. 738 ON PREVIOUS DAY (SEE REFTEL).

2. QUOTE. THE QUITO CHAMBER OF COMMERCE TO THE GOVERNMENT AND THE COUNTRY. IN VIEW OF THE ECONOMIC MEASURES RECENTLY ADOPTED BY THE GOVERNMENT AND THEIR SEVERE IMPACT ON THE CITIZENS' ECONOMIC STATUS, THE QUITO CHAMBER OF COMMERCE STATES AS FOLLOWS:

(1) FIVE WEEKS AGO, ALL OF THE COUNTRY'S CHAMBERS OF COMMERCE REQUESTED THAT THE SUPREME CHIEF (I.E. PRESIDENT) MAKE AN ANALYSIS OF THE SERIOUS NATIONAL ECONOMIC SITUATION. THE ONLY REPLY WAS CONFIDENTIAL

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PAGE 02 QUITO 06297 01 OF 02 272009Z

A HIGH-SOUNDING ALLUSION BY THE MINISTER OF FINANCE TO THE "PRESSURE

GROUPS". AND THE SUPREME CHIEF UNDERESTIMATED THE PATRIOTIC REQUEST OF THE CHAMBERS. THE CRISIS WHICH THE PRIVATE SECTOR WISHED TO HELP PREVENT WAS NOT SLOW IN EXPLODING. ADDITIONAL TARIFF DUTIES VARYING BETWEEN 5 AND 60 PERCENT ON THE VALUE OF COMMODITIES HAVE JUST BEEN IMPOSED. INCLUDED UNDER THE SURCHARGE IS A CONSIDERABLE RANGE OF ARTICLES, FROM CAPITAL GOODS TO LUXURY ARTICLES. THIS MEANS THAT, IN ADOPTING THIS MEASURE, A MOST CANDID CONFESSION HAS BEEN MADE OF THE DISASTROUS ECONOMIC POLICY PURSUED DURING THE LAST FEW YEARS.

(2) AN EFFORT HAS BEEN MADE TO JUSTIFY THIS VEILENT MEASURE BY THE ALLEGED NEED FOR PRESERVING THE INTERNATIONAL MONETARY RESERVE FROM THE RAPID FALL IT HAS BEEN EXPERIENCING DURING THE PAST YEAR. HOWEVER, THE REAL OBJECTIVE HAS BEEN IMPUDENTLY CONCEALED, I.E., TO CONTINUE OBTAINING GOVERNMENT REVENUES FOR THE PURPOSE OF COMFORTABLY MAINTAINING THE SAME POLICY OF COSTLY EXPENDITURES. IN OTHER WORDS, MONETARY RESERVES ARE BEING DEFENDED BY DEMANDING A SACRIFICE ONLY FROM THE ECUADOREAN PEOPLE, WITHOUT SHOWING THE LEAST SIGN OF AUSTERITY OR A SACRIFICE BY THE GOVERNMENT SECTOR. IF THERE WERE ANY CONSISTENCY IN THE CONDUCT OF THE ECONOMY AND IF THE PROBLEM WERE, AS STATED BY THE MINISTER OF FINANCE IN THE WHEREASES OF THE DECREE, A FOREIGN EXCHANGE PROBLEM, TAXES WOULD NOT HAVE BEEN INCREASED; RATHER, PRIOR DEPOSITS WOULD HAVE BEEN ESTABLISHED WHICH WOULD FREEZE RESOURCES EITHER FOR IMPORTS OR PUBLIC EXPENDITURES. CONSEQUENTLY, THIS MEASURES PLAINLY SHOWS TWO THINGS: A) THAT THE FISCAL DEFICIT PREDICTED FOR THIS YEAR BY THE UNIVERSITY OF GUA-YAQUIL IN THE AMOUNT OF 5.5 BILLION SUCRES, IS REAL; IT HAS REACHED, THAT IS TO SAY, A CATASTROPHIC MAGNITUDE, THE LIKES OF WHICH HAS NEVER BEFORE BEEN RECORDED IN THIS COUNTRY'S HISTORY; AND B) THAT THE GOVERNMENT IS NOT PREPARED TO REDUCE, BY EVEN THE SMALLEST PERCENTAGE, THE CONSIDERABLE INCREASE IN BUREAUCRATIC EXPENDITURES. A COSTLY AND EXPANDING BUREAUCRACY, TOGETHER WITH THE EXTORTION OF THE PRIVATE SECTOR, ARE THE CHARACTERISTICS OF THE PRESENT ECONOMIC POLICY, JUST AS THEY WERE THE CHARACTERISTICS OF THE MILITARY JUNTA TEN YEARS AGO. THE CONSEQUENCES, NOW AS THEN, WILL BE THE DIRECT AND INEVITABLE SUFFERING OF THE CONSUMING PUBLIC.

(3) IT IS INCREDIBLE THAT THE COUNTRY SHOULD HAVE BEEN CARRIED, IN A BRIEF PERIOD OF TWO YEARS, FROM A SURPLUS POSITION TO A POSITION OF AGONIZING DEFICIT. TWO YEARS AGO, A HIGH MONETARY

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 QUITO 06297 01 OF 02 272009Z

RESERVE WAS DANGEROUS BECAUSE ITS MONETIZATION CONTRIBUTED TO INCREASING INFLATION; NOW, FOREIGN EXCHANGE IS SCARCE EVEN FOR COVERING URGENTLY REQUIRED IMPORTS OF CAPITAL GOODS. GOVERNMENT REVENUES INCREASED SEVENFOLD BETWEEN 1971 AND 1974. DURING THE SAME PERIOD, EXPORTS LEAPED FROM US\$200 MILLION TO MORE THAN US-1 BILLION. WE MAY THEREFORE ASK: WHERE ARE THE 60 MILLION SUCRES PER DAY THAT PETROLEUM YIELDED? THIS QUESTION REMAINS UNANSWERED.

(4) IT WILL BE WORTH OUR WHILE TO ANALYZE THOSE FACTORS AND

ASPECTS OF AN ERRONEOUS ECONOMIC POLICY WHICH HAVE CAUSED OUR COUNTRY TO RETURN TO A DEFICIT ECONOMY: A) DISMANTLING THE PETROLEUM MAP TO THE FERVID APPLAUSE OF COMMUNISM. B) AN INIMICAL ATTITUDE TOWARD, AND A REJECTION OF, FOREIGN INVESTMENTS, WHICH RESULTED IN INVESTMENT BEING 10 TIMES LOWER IN 1974 THAN THEY WERE IN 1971. C) MAINTENANCE OF AN ABSURD POLICY OF SUBSIDIES FOR IMPORTATION OF FOOD PRODUCTS AND OTHER COMMODITIES, AND DISCOURAGING LOCAL PRODUCTION THROUGH AN AGRARIAN REFORM LAW AND A LAW ON IRRIGATION WATER, BOTH CONFISCATORY. D) EARMARKING EXTENSIVE RESOURCES FOR ABUSRD BUREAUCRATIC VENTURES, THROUGH INCURSIONS OF THE "TECHNICIANS" INTO ACTIVITIES OF THE PRIVATE SECTOR. HENCE THE DISASTROUS LOSSES IN THE IMPORTATION OF FERTILIZERS, IRON, CEMENT AND POWDERED MILK; IN THE MARKETING OF VITAL PRODUCTS; IN A MONOPOLY WHICH IS BEING SOUGHT FOR CERTAIN TYPES OF INDUSTRIAL PRODUCTION FROM WHICH THE PRIVATE SECTOR IS DEPRIVED AND WHICH THE PUBLIC SECTOR IS INCAPABLE OF DOING. E) GENERATING AND ACUTE INFLATIONARY PROCESS WHICH IS CORRODING THE INDUSTRIALISTS' CAPITAL AND THE WORKERS' SALARIES, BECAUSE OF AN OBSTINACY IN MAINTAINING AN OBSOLETE EXCHANGE SYSTEM FOR A SITUATION THAT PREVAILED TWO YEARS AGO, AND A REPEATED REFUSAL TO APPLY A RATIONAL POLICY OF PUBLIC EXPENDITURE AND CREDIT. F) A FRIGHTFUL INCREASE IN BUREAUCRATIC EXPENSES. IN 1971 THERE WERE 70,000 CIVIL SERVICE EMPLOYEES; AT THE PRESENT TIME THERE ARE 150,000. G) A RESTRICTION OF CREDIT FOR THE PRIVATE SECTOR AND A DISPROPORTIONATELY LARGE CREDIT FOR THE OFFICIAL SECTOR. H) IMPLEMENTATION BY THE MINISTRY OF LABOR OF AN ABSURDLY HOSTILE POLICY AGAINST PRIVATE EMPLOYERS. I) GENEROUSLY EXTENDING ADVANTAGES AND PRIVILEGES FOR PRODUCTION IN THE ANDEAN PACT COUNTRIES IN MATTERS OF INDUSTRIAL PROGRAMMING, WITH NO DEMAND THAT THOSE COMMITMENTS WHICH BENEFIT ECUADOR BE ENFORCED. J) ATTACKS ON THE PRIVATE SECTOR AND, IN PARTICULAR, COMMERCIAL ACTIVITIES THROUGH OFFICIAL PROPAGANDA. H) A BUREAUCRATIC TURTLE-LIKE SLOWNESS AT ALL LEVELS. THESE ARE THE PRINCIPAL

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PAGE 04 QUITO 06297 01 OF 02 272009Z

CAUSES OF THE NATIONAL UPHEAVAL, WHICH HAVE NOT BEEN CORRECTED IN SPITE OF THE TIMELY AND, AT THE SAME TIME, REPEATED WARNINGS OF THE PRIVATE SECTOR. AN ABSURDLY PREJUDICED POLICY WAS PURSUED REGARDING THE PROPOSALS MADE AND NOW, IN THE FACE OF WHAT IS INEVITABLE, THEY HAVE AGAIN APPLIED THE EASY EXPEDIENT OF RESTRICTING IMPORTS BY OVERBURDENING THEM WITH TAXES, EVEN THOUGH THE ECONOMIC AND SOCIAL COST TO THE COUNTRY MAY BE EXCESSIVE.

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PAGE 01 QUITO 06297 02 OF 02 271950Z

63

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FM AMEMBASSY QUITO

TO SECSTATE WASHDC 6908

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USMISSION GENEVA

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L SECTION 2 OF 2 QUITO 6297

5) IN VIEW OF THE FOREGOING, THE QUITO CHAMBER OF COMMERCE:
A) POINTS OUT TO THE COUNTRY THAT IT DID ITS DUTY IN OPPORTUNELY
WARNING THE GOVERNMENT OF THE OUTCOME TO WHICH ITS DISJOINTED
ECONOMIC POLICY HAS LED US, WITHOUT EVER HAVING HEEDDED THE
CHAMBER'S CLEAR AND POSITIVE PROPOSAL. B) REQUESTS ITS
MEMBERS AND THE MERCHANTS THROUGHOUT THE COUNTRY TO REDUCE THEIR
IMPORTS TO THE LOWEST POSSIBLE LEVEL. IN THIS WAY, WHILE AT THE
SAME TIME HELPING TO IMPROVE MONETARY RESERVES, NO CONTRIBUTION
WILL BE MADE TO INCREASING PUBLIC EXPENDITURES. C) REQUESTS THAT
THE GOVERNMENT, JUST AS IT DEMANDS SACRIFICES AND AUSTERITY
FROM THE PRIVATE SECTOR, RE-EXAMINE ITS POLICY AND ALSO IMPOSE
UPON ITSELF THE AUSTERITY AND SACRIFICES THAT THE PRESENT
CIRCUMSTANCES REQUIRE. D) REQUESTS THE REPEAL OF DECREE 738, SINCE
IT CONSTITUTES A SEVER BLOW TO THE CITIZENS, AND THE REPLACEMENT
OF THESE OVERHASTY MEASURES BY OTHERS, SUCH AS PRIOR DEPOSITS,
WHICH WILL SLOW THE RATE OF GROWTH OF IMPORTS WITHOUT SO
CONSPICUOUSLY AFFECTING THE NATIONAL ECONOMY.
(SIGNED) CARLOS PONCE MARTINEZ, PRESIDENT; ENGINEER GERMAN
DAVILA LEORO, SECOND VICE PRESIDENT; JAIME BRIZ, DIRECTOR;
WERNER SPECK, DIRECTOR; FAUSTO ARCOS, TREASURER; DR. EDGAR
TERAN, DIRECTOR; CRISTOBAL COBO, DIRECTOR; ENGINEER ENRIQUE
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PAGE 02 QUITO 06297 02 OF 02 271950Z

CADENA, DIRECTOR; CAROLS ROTA, DIRECTOR. UNQUOTE. END UNCLASSIFIED.

BEGIN CONFIDENTIAL:

3. COMMENT: THIS OPEN ATTACK ON THE GOE'S ECONOMIC POLICY IS THE MOST VEHEMENT BY ANY SIGNIFICANT PRIVATE ORGANIZATION SINCE THIS REGIME CAME TO POWER. APART FROM ITS EXPLICIT STRONG LANGUAGE, ITS REFERENCE TO THE PRESIDENT AS "SUPREME CHIEF" IS AN IMPLICIT ALLUSION TO PREVIOUS CHIEFS OF STATE WHO RULED AS DICTATORS. ANOTHER IMPORTANT BUSINESS GROUP, THE GUAYAQUIL CHAMBER OF COMMERCE, PUBLISHED A SIMILAR BUT LESS STRIDENT PAID STATEMENT IN THE LOCAL PRESS ON THE FOLLOWING DAY (TODAY, AUG 27), ALSO CALLING FOR RETRACTION OF THE DECREE. ALL MAJOR DAILIES HAVE BEEN CARRYING FRONT-PAGE, BANNER-HEADLINED INTERVIEWS WITH THE HEADS OF THE TWO CHAMBERS, IN WHICH THEY AMPLIFY THE CRITICISMS EXPRESSED IN THE PAID STATEMENTS. SINCE THE MEMBERS OF THESE CHAMBERS ARE IMPORTERS/RETAILERS WHOSE OXEN ARE BEING DIRECTLY GORED BY THE NEW DECREE, THEIR REACTION WAS TO BE EXPECTED. HOWEVER, ALTHOUGH OTHER SEGMENTS OF PRIVATE SECTOR MAY NOT TAKE SUCH HARD LINE, THERE PROBABLY IS BROAD SUPPORT FOR CHAMBERS' CRITICISMS.

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